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CONFERENCE ON MALAYSIA-BRITISH PARTNERSHIP FOR THE 21ST CENTURY

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" STRENGTHENING GROWTH AND MUTUAL PROSPERITY "

I would like to thank the organiser, ASLI for inviting me to address this third meeting of the captains of industry and strategic business navigators from both Britain and Malaysia.

2. Britain and Malaysia share an economic tradition and trading ties that stretch over two centuries. Given this background, we should look ahead for avenues and channels whereby we can reinforce this relationship for the good of both our countries. The importance of such cooperation has become more so given the rapidly evolving landscape of the world's economy which is being driven by new ideas and perceptions. It is only through a strong partnership between British and Malaysian companies that we can strengthen the economic growth and prosperity of Malaysia and I am sure of Britain too.

3. Malaysia's economic recovery has gathered significant momentum this year. Underlying such positive outlook is the clear evidence that the economy is becoming significantly more resilient to external shocks and systemic risks. This is made possible by recent policy measures to strengthen the nation's external reserves, the financial system and the corporate sector. The Malaysian economy rebounded to register a growth of 5.6 per cent in 1999 after a contraction of 7.2 per cent in 1998 which had followed a growth of a similar figure the preceding year. The first quarter of this year recorded a strong GDP growth of 11.9 per cent whilst the second quarter notched 8.8 per cent. Growth has been broad-based driven both by aggregate demand and supply.

4. Although all sectors of the economy have registered positive output growth, the manufacturing and services sectors stood out as the most robust sectors. The manufacturing sector will benefit from the stronger growth expected in world trade, a robust recovery in the East Asian economies and stronger domestic demand. Manufacturing output is forecast to sustain a growth of eight per cent this year,

while export-oriented manufacturing industries are expected to step up their output by an average of 7.9 per cent, driven largely by continued strong overseas sales orders for electronic products and parts, underpinned by rapid developments in information technology applications. Meanwhile, the services sector is expected to increase in terms of value-added at a rate of 5.3 per cent, with all the sub-sectors projected to record stronger growth.

5. In addition, inflation has remained fairly stable despite the pick-up in economic activities and increase in capacity use in major sectors. It moderated to 2.8 per cent in 1999 from 5.3 per cent the year before and is expected to be kept below four per cent this year. Barring any major downside risks that could derail the favourable world economic outlook, these developments should provide the necessary impetus for Malaysia to record a GDP growth of 5.8 per cent this year, as projected by the Government.

6. Such heartening figures would not have been possible had we not taken the controversial and much maligned unorthodox measures to counter the downward spiral and to ride out the recession. The selective capital controls have almost been done away with, excepting for a 10 per cent levy on repatriated profit. But controls on exchange rates will stay and will remain at its present level. They have proven to be of no harm to anyone and obviously they help business. They have certainly contributed to the strong economic recovery. The condemnation of Malaysia's unorthodox measures has now lessened. Indeed many, including the International Monetary Fund (IMF), and even the currency traders have now acknowledged that the heretical ways of Malaysia can even be adopted under certain circumstances. The currently undervalued Ringgit, together with its fixed rate against the US Dollar, the main trading currency of the country, is attracting multinational companies to relocate their operations to our Malaysian shores. Undoubtedly, Malaysia remains an attractive location for foreign investors and its export-led industry is internationally competitive.

7. Now that the Malaysian economy has regained its footing, it should help stimulate closer economic ties between Malaysia and Britain. The time is especially propitious for the business community from both sides. We must cement our partnership for growth and mutual prosperity. Britain has always been an important trading partner for Malaysia. Despite the economic downturn towards the close of the 20th century, the total bilateral trade between Malaysia and Britain has seen a gradual increase over the last seven years. From a total of 8.79 billion Ringgit in 1993, Malaysia-British bilateral trade rose to 17.68 billion Ringgit in 1999. Even throughout the bleak years of recession, the increase in bilateral trade did not slow down significantly.

8. Among the European Union (EU) countries, Britain stands

out as Malaysia's second largest trading partner, accounting for 22.2 per cent of Malaysia's total trade with the EU last year. In global terms, Britain is our ninth largest trading partner, accounting for 3.1 per cent of Malaysia's total global trading. It is also worth mentioning that Malaysia's export to Britain totalled 12.07 billion Ringgit in 1999, thus making Britain our seventh largest export market in the whole world. Out of the 14,586 cars exported by Proton until March this year, a third was shipped to Britain.

9. Despite this we cannot rest on our laurels because I am sure we can achieve more. I believe this is possible especially in areas where our respective countries have certain comparative advantages. For instance, much of Malaysia's comparative advantage lies in its efficient low cost manufacture of semi-conductors and components used in automatic data processing machines and electrical apparatus. These made up a large chunk of Malaysia's exports to Britain. On the other hand, Britain's comparative advantage lies in the manufacturing and exporting of thermionic valves, tubes and related parts, and high-technology products. In exploiting such comparative advantages in trade and bilateral economic ties, both sides cannot help but contribute to enhancing our bilateral trade. It is highly commendable that your new trade development and promotion organisation, Trade Partners UK, is actively promoting trade and investment opportunities in Malaysia among British companies.

10. There is a great deal of opportunities and avenues that can be exploited by British-Malaysian partnerships which can contribute towards greater economic growth and prosperity for us both. In Malaysia itself, there are tremendous opportunities for investments awaiting foreign investors. Over the last 30 years, the Malaysian Government has consistently maintained an investment-friendly and pro-business environment, made more attractive by Malaysia's political and socio-economic stability. This has been particularly welcomed by all foreign investors as it has provided them with a predictable stable and favourable environment for doing business. I can assure the many British captains of industry and potential investors present at this meeting that the Malaysian Government will continue to maintain the most conducive environment possible for business which will pay off for those who are ready to invest.

11. Malaysia's educated and productive workforce, excellent infrastructure, consistent business friendly policies have contributed to its success in attracting foreign direct investments (FDI), especially in the manufacturing and information technology sectors. Today, after a mere three decades since Malaysia switched from plantations and mining to manufacturing, it has gained a reputation as a cost-competitive location for the manufacture of high technology products for the regional and world markets.

12. Such is Malaysia's attractiveness as a manufacturing centre that since 1995, 17.1 billion US Dollar has been approved for investment, half of which is for manufacturing. In the first seven months of this year alone, we have received investment applications worth 4.6 billion US Dollar -- a figure which has already exceeded the 3.68 billion US Dollar worth of proposed projects during the whole of last year. These figures bear testimony to Malaysia's continued attractiveness as an investment hub in the region. Britain, with investments worth 394 million US Dollar in 118 manufacturing projects between 1995 and July this year, is the ninth largest investor in the Malaysian manufacturing sector. You will agree with me that given our closeness this is not what we should see. Britain should really rank among the top three.

13. I believe Britain, with your vast experience in industrialisation and your technological know-how, can play a pivotal role in helping us to realise the aspirations and targets laid down in Malaysia's Industrial Master Plan. One of the many ways is through investing in our high value-added manufacturing industries and technology sectors, and at the same time facilitate the transfer of technological know-how that would, at the end of the day, reap profound benefits for both sides -- profits for the investors, and technological advancement and growth for the Malaysian industries.

14. Malaysia is fast becoming a favourite location of multinational corporations for regional manufacturing-related operations. As at 31 May this year, the Malaysian Government has approved 636 representative offices, 335 regional offices, 52 operational headquarters (OHQs) and 47 international procurement centres (IPCs). The opportunities for British companies to set up IPCs in Malaysia are immense. An IPC will not only serve as a centre to procure or distribute raw materials, components, and finished products, but will also provide a strategic gateway to tap and penetrate the markets of the surrounding region. By the end of this year, the combined sales of these IPCs located in Malaysia are expected to reach 3.97 billion US Dollar. Our liberal equity policy which generally allows foreign investors in Malaysia's manufacturing sector to hold 100 per cent equity in projects which export at least 80 per cent of their production is another positive draw. Even more attractive is the policy which permits foreign investors to hold 100 per cent equity irrespective of their level of exports for project applications received until the year end.

15. There are already several British companies which have invested significantly in Malaysia, including Blue Circle (approximately 40 million Pound), British Telecom (275 million Pound), BP (130 million Pound), and National Power (80 million Pound), not to mention many others like Royal Dutch Shell, Unilever, Rolls-Royce and Cold Storage. I look forward to seeing the growth of such investments. At the

same time, given that Britain has one of the most business-friendly environments in the EU, including easy access to the EU, a skilled and flexible workforce, and a world-leading science base, I am sure that Malaysian investors can also benefit by investing in Britain. Proton's investment in automobile engineering by acquiring Lotus is a prime example of the many strategic opportunities available for Malaysians to invest in Britain, especially in areas where we lack technical expertise at home. In fact, the technology acquired from the purchase of Lotus has enabled Proton to improve the ride and handling of its cars. Excel the new exhibition centre on the Thames is another example.

16. British-Malaysian partnership in the form of various strategic investments will hugely benefit both countries in being gateways to respective regions. By the year 2003, Malaysia is poised to be an even more attractive location and a strategic gateway to the ASEAN market given that intra-regional tariffs will be reduced to between zero per cent and five per cent with the establishment of the ASEAN Free Trade Area (AFTA). Manufacturers with production bases in Malaysia will be able to export freely or with minimal duties to other ASEAN member countries. By the same token, we see Britain as a strategic gateway for Malaysian companies to penetrate not just the EU market but also greater Europe.

17. Another crucial area which I believe British-Malaysian partnership will augur very well for the new millennium is in information and communication technology (ICT). Undoubtedly, developments in ICT -- the internet in particular -- and the convergence of technologies have significantly shaped not only our lifestyles, but also the nature of businesses and the way businesses are conducted. The growth of E-business is phenomenal. While the radio and the television have taken 38 years and 13 years respectively to reach 50 million users, the internet has taken only five years. If we fail to harness ICT, we will be left out in the cold.

18. I would therefore urge both British and Malaysian companies and technopreneurs to work together to capitalise on the opportunities in the ICT sector. The Multimedia Super Corridor (MSC) project in Malaysia offers British companies a unique opportunity to catalyse a virtuous circle of development among local, regional and international businesses. The MSC should be highly attractive for British companies wishing to develop or use multimedia technologies to provide value, and for expansion into Asian markets. We have put in place policies, practices and cyberlaws which alongside Malaysia's relatively lower cost would make the MSC a prime place to do business out of.

19. Currency turmoil notwithstanding the MSC project has remained on track. There are already 362 MSC-status companies with 37 being world class. By 2003, we aspire to have 50 world class companies in the MSC. In the recent

annual International Advisory Panel (IAP) Meeting, members gave their thumbs up for developments that have taken place in the Corridor. Many were impressed that the MSC is actually ahead of schedule.

20. There is much that British companies can offer Malaysia in terms of technology, know-how, and capital and at the same time the MSC can offer the platform for British companies to incubate new breakthrough technologies that will shape the future. I am glad that British companies such as BT, Druid, Madge, and Reuters are playing a significant role in the MSC. I can foresee there are more avenues for cooperation among Malaysian companies and our counterparts in the Silicone Glen and Fen in Scotland, as well as Cambridge in England.

21. I am also pleased to see the strategic partnership between Malaysia and Britain in developing Malaysia's own "Universal Studios", known as the Entertainment Village (E-Village). The three billion Ringgit project would complement the efforts of the Multimedia University and other research and content providers located within the MSC.

22. Knowledge is at a premium in the new economy. To succeed we will need more knowledge and knowledge workers to fill the expected demand of the MSC. We have worked out our requirements for such workers and we feel we can train them. Still we think there is an opportunity here for cooperation in training at university and other levels. We use English as the medium of instruction and needless to say, British institutions of higher learning can play a role in the education of our knowledge workers.

23. It is highly crucial for the business community of both sides to strive together to synergise resources, capabilities and experience to achieve common goals. Britain and Malaysia can work together to minimise any negative impact of globalisation. I urge the business community of both countries to forge closer understanding that translates into real cooperation and businesses.

24. These are the days of inter-dependence and inter-connectivity. We have to realise that no one nation can live and survive on its own. It is becoming increasingly clear that the zero-sum game is obsolete. We need to work together for mutual growth and prosperity. In this regard, I sincerely wish to see the partnership between Britain and Malaysia soar to greater heights with both countries counting on each other's strengths to cement growth and attain greater prosperity.